

# **Adapting Postal Practice to the Changing Marketplace:**

## **Prospects for A Postal Chief Innovation Officer**

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**Presented to the Eastern Conference  
Center for Research in Regulated Industries  
May 18, 2012**

### ***Executive Summary***

*This paper was revised when the US Senate passed a bill on April 25, 2012 (S. 1789) that included a provision that would create a Chief Innovation Officer and other features to encourage postal innovation. The concept for the new position is controversial and its current structure will create cumbersome governance issues. But these organizational matters can be adjusted. Of greater significance is the fact that a good idea and the worthy goal of encouraging postal innovation will be undermined by the desire to “regulate” innovation as if new products and services were proposals in a traditional rate case. New policy guidance is needed to clarify the goal, to explain the public interest mission that Congress intends for the USPS and to encourage public-private partnership.*

There is new value to be found in taking a critical look at innovation in the postal and delivery industries. Through innovation, some have argued, there will

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be opportunities for new top line growth for a business model that is commonly seen as “broken”<sup>i</sup>. As importantly, innovation offers multiple additional benefits as it promises to make traditional postal services more valued in the modern marketplace and perhaps to slow their decline. And innovation can yield value in reducing costs as well as growing or sustaining revenues. Each of these themes was on display when Postmaster General Patrick R. Donahoe spoke to the recent National Postal Forum in Orlando, FL<sup>ii</sup>.

As this paper discusses, there may soon be even more of a need for an innovation strategy for the USPS as a result of the ongoing debate over Postal Reform. To this point in the recent discussion of Postal Reform, the focus has understandably been on the dire cost consequences of continuing with the status quo. But the Senate reform bill (S. 1789) also introduced a new idea to the discussion, a provision that would create a Chief Innovation Officer (see Figure 1). At this point, there is limited consensus around what such a leader would do<sup>iii</sup>.

This paper was initially intended to address the questions that most private firms with broken business models would be asking – if there is to be a viable American Postal Service, how can the game be changed? What are the best innovation practices and how should the postal industry observe them in adapting to a changing market?

In the course of writing this paper about Innovation, the Senate passed its version of postal reform 2012 (April 25, 2012). This reform bill introduces a number of new initiatives to encourage innovation on the part of the USPS. I

have adjusted the paper accordingly to discuss these current issues. The broad question of “what would the private sector do?” remains in the paper in an edited form to provide a framework for evaluation for the proposed initiatives.

## **Figure 1**

### **The Chief Innovation Officer And Related Provisions From S. 1789<sup>IV</sup>**

#### Section 211 Nonpostal Products and Services

- Permits the USPS to provide nonpostal services
- Approval for the new service by the PRC if (1) utilizes USPS facilities, (2) consistent with the public interest and demand for service (and from USPS), (3) not create unfair competition with private sector, (4) undertaken in accord with US laws and (5) likely to improve net financial position of the USPS based on market analysis submitted to the PRC and Congress
- Designation of the product as market dominant or competitive or experimental

#### Section 212 Chief Innovation Officer

- Would lead the development of an innovation strategy
- Would lead the implementation of plans
- Would report to Congress annually

#### Section 213 Advisory Commission on Postal Service Solvency and Innovation

- Responsible for providing strategic guidance on enhancing the long term solvency and to encourage innovative thinking
- Will consider alternative business models, additional products and services and innovations offered in other countries
- 18 month blue print for innovation

Of course, there is likely to be pushback to innovation initiatives (as there has been for years<sup>v</sup>.) There are many who have argued that the posts can't innovate successfully with or without a new Chief Innovation Officer. And what's more, if innovation is going to reach into areas of new nonpostal products, many participants in the recent reform debate believe that even if nonpostal services could succeed<sup>vi</sup>, they shouldn't be permitted to do so<sup>vii</sup>.

Such debates have occurred in many industries in recent years. There is a great deal of literature documenting what it takes for old-line companies to innovate successfully – all sources that would give hope to the innovations. The critics charge, however, that if innovation in the posts were possible it would have happened. Today the posts are often portrayed as the modern example of the buggy whip manufacturers who failed to anticipate the coming of the automobile<sup>viii</sup>.

So which is it? Is innovation a pathway to postal reform and reinvention or is it something that happens for other industries, but not for the posts? What awaits the future Chief Innovation Officer of the USPS envisioned in the reform law? This paper explores this topic in three steps:

- This paper first revisits the importance that innovation, especially on the top line, might have for the USPS. In other words, why try?
- Second, this paper looks at the new proposal to create a Chief Innovation Officer for the USPS. The paper uses this device to discuss the unique challenges of adapting innovation best practices to the postal sector.
- Finally, the paper discusses specific recommendations for steps that might be taken to adapt postal practice to the changing marketplace.

## ***Part I: The Compelling Need for Top Line Postal Innovation***

- *Top line innovation may have special significance for the Postal Service today because it makes reform more achievable.*

When improving marginal efficiencies was all that was needed to keep the USPS viable, there was a certain comfort for postal leaders in focusing primarily on cost cutting strategies. Growth strategies have often put the USPS in a position of competing with its customers and mail service providers. Announcing new services (e.g. Neighborhood Mail (1994), Auto Day (1996)) created an uproar. But today the balance has shifted and there has been far more willingness to permit the USPS to do new things that might help the Service financially (e.g. Every Door Direct (2011), licensing USPS branded products (2012)). To see how the balance might have shifted to permit the USPS to do some new things, but still not everything and anything, its useful to understand why innovation has become more popular in a time of financial crisis.

- *“The Ox is in the Ditch, Big Time”*

Above all, necessity has been instrumental in shifting the balance. This single fact needs to lead every discussion of the future of the posts. An historic perspective illustrates the shift. In the spring of 2001, as William Henderson was about to retire and Jack Potter would soon assume the role of Postmaster General, Senator Fred Thompson convened a hearing on the crisis at the Postal Service. The head of the Government Accountability Office (GAO), David Walker, had just placed the Postal Service on the GAO’s High Risk Watch List. As the problems at the Postal Service were described in the hearing, Senator Thompson

signaled that he understood. OK, he said, “the Ox is clearly in the ditch, big time.” He got it; but he did not have a lot of company.

Ten years later, after postal reform, financial crisis and new attempts at reform, the crisis at the Postal Service continues and worsens. But today there are important differences. The understanding that there is a crisis (ox in the ditch) is shared widely. And the USPS is not dragging its feet to embrace a solution. With its five-year “Plan to Profitability<sup>ix</sup>” and other similar statements, the Postal Service of 2012 outlined a series of dramatic actions that it wishes to take to restore profitability to an institution that is now facing grievous institutional crisis.

As it has worked to restore profitability and to create a viable business model for the 21st century, one of the central characteristics of postal reform, has been demonstrated once again - the broad, unwieldy impact of the USPS makes any discussion surprisingly complicated. Also, seventeen years and more of Postal Reform has inevitably been “work by committee” and it has produced many unintended consequences. Because the Postal Service is so large and all encompassing (after all, its mission is to provide universal service) there are a few actions that it can take that have limited impact. Many interests are touched by virtually any reform idea. When the Postmaster General proposes bold cost cutting initiatives such as closing 250 facilities, changing delivery to five days and modifying service standards, reducing the number of retail outlets, modifying retiree healthcare and more, the USPS’s Plan for Profitability is inevitably going

to touch millions of people and their representatives and it motivates concern. American due process requires notice and comment<sup>x</sup>. Unfortunately, what this means is that the Postal Service often cannot act until the opposition is deeply entrenched.

In such a situation, innovation can play an important role by easing tensions and demonstrating a commitment to growth as well as to cost cutting. But where to begin?

IBM has outlined one strategy. Downsizing is a common challenge across the government and some have suggested, that needed focusing on the concept of creating “mission value” can encourage balance. Chuck Prow, the IBM general manager responsible for the Global Business Services’ (GBS) Public Sector business<sup>xi</sup> offers an equation to frame such a balance between top line and cost cutting concerns. In the *mission value* equation the numerator is the expansion of services and/or improvement in quality and the denominator is reduction in cost or improvement in efficiency. The two terms need to be balanced so that customers do not see new services as papering over inefficiencies and workers don’t see improved performance as being achieved on the backs of the workers. Balance makes both top line growth and cost cutting far more achievable.

➤ *“I have an App for That”*

The value of taking a balanced approach to reform has been demonstrated in multiple debates over postal reform in recent years. For example, in November of 2008 Congressman Stephen Lynch (D, MA) convened a hearing of the postal subcommittee of the House Committee on Government Reform. I was asked to testify.

But I was fifth on the panel that day with the lead postal marketing executive, Robert Bernstock, the head of the regulatory commission, Ruth Goldway, the lead GAO postal executive, Phil Herr, and the former Deputy Postmaster General, Michael Coughlin. As the fifth witness in line, I had some time to think about why we were there as the hearing unfolded.

What was obvious was how much pain Congress was experiencing with the various solutions that had been proposed for the crisis at the Postal Service. The bottom line was that as much as cost cutting and downsizing are going to become the modern reality of government, they are exceedingly tough to do. Seemingly small numbers of federal workers who are being forced out of their jobs or required to move across the state or the country can cause a great deal of pain for individual members of Congress.

For someone in a position such as Congressman Stephen Lynch's, talk about closing facilities inevitably leads to pressure from well-organized, articulate, powerful home interests. As the next generation of governmental leaders is

forced to do more with less and to downsize the footprint of their agencies, there will be increasing pressure on Congress to find a way out.

In the '90s the USPS had watched as Congress was pressured from postal competitors, customers and entrepreneurs. None wanted to see the government expand unless it was clearly to their advantage. Even growth oriented reforms could be difficult to achieve. Yet for Congress, there is no comparison between the problems of downsizing and the problems of managing governmental growth, the former are a far more difficult challenge.

When the questioning reached me, with some urgency Congressman Jason Chavetz (R, Utah) asked for me to "give some examples of new postal services that will generate new revenue." When I outlined broad areas of potential value that should be supported by the committee – green services, expansions of universal service and so forth – he asked me to be more specific and describe the new service offerings that should be created<sup>xii</sup> and to state how much revenue they could achieve.

I answered. "Fortunately we don't have to do that here in this hearing room" and then, before anyone could take offense, I explained that first we should look to the marketplace to be a generator of solutions. If the incentives were right and the market were allowed to function effectively, there will be many entrepreneurs who want to come forward and say "I have an app for that,"

I added that Section 1004 of the reform law of 2006 (PAEA<sup>xiii</sup>) encouraged public private partnerships but there have been few and this is a path that should

be explored as a way to encourage entrepreneurs to enter the market.

This is one of the most important promises of innovation. Creating new products and services that will provide postal revenues and serve customers in new ways is far preferable in our representative political system to closing facilities. There is as much agreement with this simple idea as there is opposition to the multiple costs cutting proposals that has been put forward in the USPS Plan for Profitability<sup>xiv</sup>. To get permission to cut costs, recent history suggests, there is a need for a maximum effort to grow the postal business at the same time that it's infrastructure is downsized<sup>xv</sup>.

In sum, innovation is an important element in the equation that will define the future of the USPS. The innovation process helps to establish a necessary good faith balance between cost cutting and new revenue development and it eases pressures on key constituencies and their representatives. In short, it's important that innovation succeed. To help, Congress should outline a broad vision to guide future postal innovation. First, the concept of innovation should encompass both new products and services and include internal processes as well. Second, the role of the government monopoly in contributing to the broader public interest should be better articulated and finally, there should be clear encouragement of private sector participation through public-private partnerships.

## ***Part II: The Postal Chief Innovation Officer***

- *Recent legislative proposals have provided a point of focus – a “presenting problem” that offers an opportunity to access the broad subject of encouraging innovation.*

In the Senate bill passed on April 25, 2012, there is a proposal to create a Chief Innovation Officer. There are numerous public and private sector institutions that offer illustrative case examples of the creation of innovation processes that have been important to their transformations. From IBM to Ford to Proctor and Gamble to the Treasury, the Veterans Administration and the Department of Homeland Security there are examples of successful processes<sup>xvi</sup>. But the subject is so broad that it’s important to give it focus by starting with the near term issues that need to be addressed.

To be clear about what has been proposed by the Senate, its useful to summarize the changes that would be introduced if key provisions of S. 1789<sup>xvii</sup> were to become law and second to consider their implications.

- *Section 211 – Nonpostal Products and Services*

This section would permit the Postal Service to provide nonpostal services. The regulator would have to approve the new approved service if it (1) utilizes the USPS facilities, (2) it is consistent with the public interest and there’s a demonstrated demand for the USPS to provide the service, (3) it would not create unfair competition with the private sector, (4) it will be undertaken in accordance with federal laws, and (5) it is likely to improve the net financial position of the Postal Service, based upon USPS market analysis submitted to the Congress

and the regulator. The regulator would have to designate whether the product or service was market dominant, competitive or experimental, setting the stage for how it would be regulated. Also, for five years, the bill would require the USPS to submit copies of its market analysis to Congress as well as to the regulator.

➤ *Section 212 the Chief Innovation Officer*

The new officer would lead the development of an Innovation Strategy. The mission of the new officer would be to develop and implement innovative postal products and services and nonpostal services as outlined above. The new Chief Innovation Officer would be required to submit a report to Congress outlining a comprehensive strategy for improving the net financial position of the USPS through innovation including new products and services. Annual reports on the implementation of this innovation strategy would also be required.

➤ *Section 213 Advisory Commission on Postal Service Solvency and innovation*

A new Advisory Commission would be responsible for providing strategic guidance to the President, Congress and the Postal Service Board of Governors on enhancing the long-term solvency and to encourage innovative thinking. The Commission will consist of Presidential Appointees and Congressional Appointees having appropriate experience and will examine the current “structure, condition, management and governance” of the Postal Service, alternative business models, additional products and services and innovations offered in other countries. Within 18 months the Advisory Commission is to develop a blue print for long-term solvency of the Postal Service, “including both

opportunities for reducing costs and a strategy for future growth.”

There is a great deal here<sup>xviii</sup>, although there is no sense of the urgency of the crisis facing the Postal Service or clarity in the objective of creating the new Chief Innovation Officer. There is no need to make the crisis complicated. Simply looking at the decline of revenue and mail volume since 2007, especially in First Class Mail, makes the scope of the problem clear. The Postal Service has proposed a series of initiatives that would cut costs to a level that would align them with the declining revenue. The Chief Marketing Officer has offered many new initiatives and his team is working hard to grow revenue.

Nonetheless, some argue that forecasts of revenue decline are overblown, that they would be reversed or at least modulated by better marketing and new products and services<sup>xix</sup>. But even if this were true, there is little in the proposed bill that would reasonably suggest that new top line innovation (which must be presented here to the regulator and justified with research that is given to both the regulator and the Congress) could catch up with the current rate of decline. If there were new multibillion-dollar revenue streams that would be created by this bill surely the seedlings would be visible today. What’s more, the new approval processes and the role of the regulator is so strong that few private investors would likely bet on new ventures that were structured in such a manner.

The implicit goals are also problematic. References to “improving the net financial position of the USPS” (in the justification of new nonpostal products and services and in the description of the strategic plan to be developed by the new

Chief Innovation Officer) or the notion that innovation will produce solvency would at best require some additional definition. For example, are the products (that would have to be reviewed by the regulator to determine whether they are in the public interest, whether there is demand for them and whether there is even demand for the USPS to provide them) expected to improve the net financial position of the USPS from day one? Or are they to be granted a phase in period? Could Apple or Sony or 3M or other model private sector innovators have met this standard?

But before discussing these examples or the need for greater clarity in mission, scope or the standard for measuring success, its useful to look at what private sector innovators would do. Innovation that would assist in cutting costs and improving efficiency will continue to be valuable to the future of the USPS. But as discussed above, there will also be value in having a balanced approach to innovation. And to understand the most effective way to create effective innovation that can improve the top line, its useful to begin by starting with the market and seeing what the private sector would do to adapt to the changing marketplace.

### ***Part III: The Postal Innovator's Dilemma, Adapting to the Changing Marketplace***

- *The unique challenges in adapting innovation to the postal sector explain why more policy guidance is needed to help the USPS succeed.*

Making the case that it is important to undertake fundamental change is becoming easier and more persuasive as the USPS continues to lose money as a result of volume decline. But knowing how to choose an effective pathway to a future viable postal service has never been easy for the highly regulated USPS.

- *Private Sector Models and the Monitor Framework*

By 2012 an increasingly competitive global marketplace has made innovation an imperative that is transforming the way in which large organizations are managed. Often the models are all encompassing. “Great organizations don't depend on a small number of exclusive people to come up with innovations. Instead they create a culture in which every employee is encouraged and empowered to innovate — whether it's in processes, products, or services,” writes Ron Ashkensas of Shaffer Consulting<sup>xx</sup>.

Throughout the economy business leaders are spending an increasing share of their time talking about innovation. Often one of the primary concerns is how to structure a reliable innovation process. One model for thinking about the innovation process that addresses this growing interest in innovation strategy has been developed by the Monitor Group. Monitor, has made innovation a special focus of their management consulting practice. Their work has taken on a number of key myths about innovation. For example, Monitor writes, many

conflate the concept of innovation in creating new products and services with the concepts of creativity, creating hot products and developing IT services. But, Monitor has developed a model that identifies 10 types of innovation and demonstrates that the process that has proven effective for many leading edge companies is much broader<sup>xxi</sup>. Monitor's experience demonstrates that the process of creating value for customers can not only come from a variety of sources but effective strategies for creating reliable, systematic innovation touch on multiple parts of an enterprise.

Using Monitor's experience with innovation in the private sector as a framework for thinking about what will need to happen to create successful innovation processes in the postal sector, suggests that its important to go beyond products and services to consider three different platforms involving the:

- ***Configuration of the Business*** (What is the business model and source of revenue? What is the network of connections and worksharing with customers and suppliers? What is the structure and alignment of talent and assets? And what is the process and method for getting work done?)
- ***Character of the Offering*** (What are the distinguishing features and functionality of products? What is the product system, that is, what are the complementary products and services offered by the Post?) and
- ***Customer Experience*** (How is the service supported and enhanced? How are offerings delivered to customers? How does the brand present the promise of the offering in terms of pricing and features? What are the distinctive interactions - customer engagements that are fostered with the customer?)

By creating a model that breaks innovation down into 10 types represented illustrated in the questions that explain the three platforms above, Monitor has been able to analyze the way that innovation processes work in interconnected

ways in leading edge companies. Monitor has then drawn some important conclusions about the innovation process through this work with multiple private and public clients.

For example, Monitor found, the best performing companies are investors in innovation to a far greater extent than lower performers and they tend to invest in more than one type of innovation. Also, by breaking innovation into its 10 parts Monitor was able to focus on strategies for creating breakthroughs. The 10 elements that are grouped into the three different types of innovation strategies seen above suggest that there is more to innovation than can be seen through the small window that is available to the Postal Regulatory Commission when it reviews the written documents that describe an offering and the market research findings that support proposals.

Business model centric innovation concentrates on configuring assets differently to deliver value. Platform centric innovation concentrates on reinventing or recombining capabilities to deliver value. And customer experience centric innovation seeks to engage customers differently to deliver value. Considering these three concepts in a postal context makes clear the need to combine new sources of revenue, new capabilities to configure products and services and new ways of delivering value to customers.

One theme in particular that becomes apparent in considering the way in which these three broad strategies might be combined to make offers that are competitively superior is the need to combine physical delivery with information

about the mail. A great deal has been written about mail visibility in recent years and the USPS has created an Intelligent Mail barcode (IMb) to transform the mailstream. But perhaps this one area of innovation illustrates better than others the power of Monitor's insight. Information about the mail inevitably connects issues of value models, the characteristics of the offer and the customer experience. The world has changed from a time in which passive consumers were surprised and pleased to see their mail arrive at their house. From the perspective of mailers the mailstream today is much closer to a supply chain and there is a demand for an intelligent information stream that can help manage it. For the consumer, even the residential consumer, the mail will be far more likely to be connected to electronic transactions in the future. And in turn this will connect the three platforms in the Monitor model. To imagine that this could be seen in terms of discrete products and services is not realistic.

➤ *The Challenge of Postal Practice*

In the postal world, unfortunately, there has been a great deal of emphasis on "regulating innovation" and on creating a staged gate process so that individual approvals can be given on the basis of micro performance targets. The reasons for this approach are not hard to discern. There are so many overseers and so many interested parties with a stake in the future of the USPS, that none have wanted to give up control over the change process. Nor were the competitors willing to allow the behemoth Postal System to grow in new areas without stringent checks.

The problem is that in these patterns might have been logical in an earlier time in which the posts played a different role. While it may be a familiar concern that government monopolies needed to be regulated before they could create new services that might compete with the private sector, the result that this creates is misaligned with the market. Customers will not wait for a cumbersome regulatory process and yet in the future, the posts may not be able to remain viable if they cannot innovate and create value for increasingly impatient consumers.

The Monitor framework would suggest that regulating individual products and services and expecting that market research will demonstrate demand that can only be met by the USPS will miss the opportunity to integrate key interconnected innovation concepts. In the future, there will almost certainly be a family of services, for example, that give consumers, mail recipients, “control” over the mail by means of electronic information streams. Customers will be able to redirect mail – storing some, redirecting some pieces and accelerating shipment of others. A consumer will want to have some mail delivered as quickly as possible. Other pieces may only warrant a glance and then recycling. Still other mail and parcels may be returned or given to others. Addresses will be available on line to redirect the mail even before the resender knows the new address. Innovation of such a physical mailstream and managed digital mail may involve innovation in pricing, in operations and in customer service, all at the same time.

To be able to offer such integrated products and services as suggested by this illustration, services that combine new business models, partnerships, new customer experiences and more. This will not be possible if the new Chief Innovation Officer is required to spend 80% of the time interacting with the regulatory process on a case by case basis.

➤ *Adapting to the Changing Market.*

To create an effective innovation process that can produce revenue for the USPS, Congress should frame a broader vision to guide future postal innovation. The market does not make distinctions between paper and electronic media. In the future they are far more likely to be integrated in the minds of the consumer and seen simply as communications media.

Today the same consumers are using both paper mail and email, often in interconnected ways. Postal Services and nonpostal services are not distinguishable from a consumer's "use perspective". In Monitor's research, the successful innovation companies invest in multiple dimensions of innovation at the same time. What this means is that the regulatory process which would require that each service be justified (in terms of public interest, fairness to the private sector, likely to improve the financial position of the USPS based upon market research) individually will make it extremely challenging for the USPS to succeed in developing new products and services successfully. But while the concept of innovation is still being framed, there are a number of steps that might be taken to improve the chance for success.

- First, ***the goals and objectives*** of a new postal innovation program should be clarified and broadened. The concept of innovation should encompass both new products and services and also internal processes. And most importantly, outcomes should be specified.

Is the goal to create new services? If this is an important goal, it should be clear. By what date should new services be operational? Assuming that it's difficult to produce such a new revenue stream under the regulatory framework that is outlined in the bill, what should happen next if this doesn't work? Should there be adjustments recommended by the new Advisory Commission to allow the Congress to create a more effective innovation process. And what policy options should be considered? Should there be a postal DARPA<sup>xxii</sup>? Should there be deregulation?

The problem with the regulatory processes that have been created to govern postal reform is that regulatory review has proven more effective in stopping innovation than in supporting it. One modification might be to begin with the outcome that Congress seeks to achieve and then to adjust the processes over time to reach that goal.

- Second, the role of the USPS, the government's monopoly service, should be clarified. There is a need to define what is meant by the ***public interest***.

As long as the USPS is a protected monopoly, it will be regulated. This paper has reviewed the heavy burden of regulation that is created in the Senate bill and has drawn the conclusion that innovation is unlikely to flourish in such a constrained setting. But instead of trying to re-engineer regulation, there should

be a rethinking of the problem that regulation is trying to solve.

If regulation is a given (to protect private competitors from unfair competition) when would significant liberalization be justified? Clearly, if the USPS is providing an “essential facility” that is needed to create a larger public good, private competitors should be willing to accept the USPS’s presence in the market. More effort needs to be given to defining what such a public interest standard should be. For example, if the USPS can “prime the pump” and create a market that would not otherwise exist, it should be given leeway. The expansion of universal service, environmental protection and giving vitality to the election process are other examples of public purposes that may justify government action.

- Finally, there should be encouragement of ***private sector participation*** through public-private partnerships.

If the public interest is to be better defined, another improvement would be to clarify the role that the private sector should be encouraged to play in delivering innovative services in partnership with the USPS. There is value in recognizing the need to create a realistic framework. The USPS is severely constrained by law, regulation, traditions and constituencies. Private partnerships may be an antidote to some of the most serious constraints faced by the USPS.

To grow services in the future, increasingly competitive marketplace there will be a need in the mailing industry as in many industries, to make mail compatible with electronic services, if not to have the USPS offer them. Yet, the

market of 2012 has evolved to the point that what might once have been possible – postal leadership in creating electronic infrastructure to develop innovations – may no longer be feasible. To partner with entrepreneurs and firms with the agility and expertise to offer services that are in the public interest<sup>xxiii</sup> may be necessary for the USPS to offer innovative products and services that the marketplace will demand as well as to gain the competitive freedom to offer them at all. The postal reform law of 2006 encouraged partnering with the private sector<sup>xxiv</sup>. Unfortunately, vague Congressional endorsement may not be enough to clarify the rules for partnering that a private investor would need in order to be encouraged to join.

The mechanics of these policy guidelines can be improved. But the USPS is simply not as agile as its competitors. As long as the posts are public institutions, if they are to participate at all, they need to find ways to facilitate innovation through new mechanisms such as public private partnerships<sup>xxv</sup>.

With clear guidance, the concept of the Chief Innovation Officer can make a valuable contribution to defining the future of the Postal Service. Regulating each innovation as if it were a traditional rate proposal is however a process that is designed for failure. There is time to change course, to clarify goals, objectives and roles but there is little time to waste.

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<sup>i</sup> The theme of growth was on display at the National Postal Forum in Orlando, April 1, 2012.

<sup>ii</sup> April 1-4, see NPF.org.

<sup>iii</sup> On Postcom Radio, April 18, 2012, the insider postal experts joked about the idea of adding one more officer to the USPS to focus on innovation. The governance issues alone – how would such an officer “implement” as well as initiate if there were also a Chief Marketing Officer? For example.

<sup>iv</sup> Summary points from the description of S. 1789 published at [www.postcom.org](http://www.postcom.org) any discrepancies between this summary and the actual bill texts or future reports are a result of the author seeking to develop timely comments. Inevitably the question will be asked: what should the Chief Innovation Officer do? This paper suggests that the answer to that question should be a good deal broader than the agenda suggested by the initial summary of S. 1789. In the author’s experience in serving in such a job at the USPS – Vice President for Technology applications from December 1993 to June 1996 – many of the best ideas “walked in the door”. Smart postal employees had been thinking about things that could be done and they were more than ready to offer them. Consumers, mailers, suppliers and others were also ready to offer new ideas. The agenda of a new Chief Innovation Officer will fill up quickly and screening new ideas will not be the most difficult challenge. What’s more there are even new tools available to a new Chief Innovation Officer such as an evolved Internet and government practices such as using competitions that can be counted on to produce new ideas. This paper focuses on the issues of integration that will have to be resolved for the new function to be effective.

<sup>v</sup> The challenge in creating successful postal innovation is one with which the author is familiar. I was recruited by Marvin Runyon and Bill Henderson in 1993 to create a digital strategy and had the experience of creating an Electronic Postmark, CONFIRM, kiosk services, a Web Interactive Network of Government Services, hybrid mail and more. I am often told that “you were just ahead of your time”, which is of course nonsense because virtually all of these ideas came from insightful postal employees who were looking for the opportunity to innovate and had already conceived of many of the opportunities that we pursued. The experience is described in Robert A. F. Reisner, “When a Turnaround Stalls”, *Harvard Business Review*, February 2002.

<sup>vi</sup> Former Postal Regulatory Commission Edward Gleiman gave a speech in 1974, for example, explaining to the National Postal Policy Council, an association of First Class mailers, that the USPS had reached a key decision point and needed to be stopped from offering new services that reach beyond the traditional array. This point of view was then put into law in the Postal Reform Act of 2006. Section 102 of PAEA. In the words of Vice President Biden, there is no reason to question the motives of any of the policy makers who believed strongly that the USPS should not create new, non-postal services. But its not clear today that however well motivated that the outcome was in the interest of the USPS.

<sup>vii</sup> One of the most significant elements of the Postal Accountability and Enhancement Act of 2006 was the firm boundaries that it put around products and services both by defining postal services to be traditional sortation and delivery of hard copy mail and parcels and creating a process that limited everything that reached beyond those narrow bounds.

<sup>viii</sup> Senator John McCain stated on the floor of the Senate on April 24<sup>th</sup> that he grieved for the buggy whip manufacturers and he grieved for the USPS employees whose compliment needs to be reduced.

<sup>ix</sup> Five Year Plan for Profitability, March 16, 2012, USPS.com.

<sup>x</sup> What is meant here is not a specific reference to individual precedents to be found in Administrative Law. Postal lawyers can discuss what the “Third Class Mailers” case may mean when it said in essence that anything that the USPS does that affects a lot of people needs to be reviewed. This is not a discussion of the standards for review but rather that in general, the big actions will require review processes however much the Postal Regulatory Commission may wish to streamline them.

<sup>xi</sup> Chuck Prow of IBM wrote in “Strategies to Cut Costs and Improve Performance” Charles Prow, Debra Cammer Hines, Daniel B. Prieto

<http://www.businessofgovernment.org/article/strategies-cut-costs-and-improve-performance>

<sup>xii</sup> In fact, when I was Vice President for Technology Applications we created a sizable menu of postal products and services ranging from remote retail kiosk services to a gateway to government to cyber

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security protections to smart cards and hybrid mail. When they became controversial (for my successors) there were requirements to report on revenues quarterly. Most new venture development experts would have said that there was no surer way to ensure their early demise than to create a new service and to require monthly reporting of profitability.

<sup>xiii</sup> Cite PAEA

<sup>xiv</sup> USPS.com. Plan to Profitability, February 16, 2012, p. 27.

<sup>xv</sup> Without trying to offer too grand a conclusion, the American principle borrowed from Administrative Law of “exhaustion of remedies” may apply here. As budgets are cut, the constituencies don’t go away and the authorities are seldom changed. Thus tomorrow’s leaders in government will have to do more with less while being required to continue to serve needy populations. Before the budget cutting is acceptable or seen as fair, there will be a need to innovate to model new approaches

and demonstrate that there are no other options. This is a theme, in fact, that is picked up in S. 1789. In the case of the USPS this will mean seeking to earn new revenues through innovation. If language similar to S. 1789 is contained in the final law, the USPS will be required to demonstrate to the regulator that it has tried everything.

<sup>xvi</sup> See in particular Robert A. F. Reischer, “A Leader’s Guide to Transformation”, IBM Center for the Business of Government for discussion of the public sector examples of innovation initiatives. The stories of innovation at IBM, Ford and P&G are well documented in both mainstream media and business publications.

<sup>xvii</sup> Discussion here comes from the summary of S. 1789 provided by Postcom at [www.Postcom.org](http://www.Postcom.org). Mistakes in interpreting provisions of S. 1789 before a summary has been provided by the managers of the bill are attributable to the author.

<sup>xviii</sup> This paper does not take time to criticize the issues of governance that are raised by this bill. There are at least 4 important questions: What’s the relationship between the Chief Innovation Officer and the existing Chief Marketing Officer? Does the new Chief report directly to Congress as implied in the bill? What is the relationship between the Board of Governors and the Innovation Advisory Council? How are staffing, resource, investment and contracting decisions to be made? All questions can be resolved by clarifying the role of the Board of Governors and the agency CEO.

<sup>xix</sup> Its possible to hear this critique from various customers and suppliers to the mailing industry.

<sup>xx</sup> Ashkensas, Ron, “Innovation is Everyone’s Job”, Harvard Business Review, blog December 6, 2011.

<sup>xxi</sup> Drawn from Monitor’s proprietary 10 types of innovation. [www.Monitor.com](http://www.Monitor.com)

<sup>xxii</sup> The concept of a postal Defense Advanced Research Projects Agency has been suggested from time to time.

<sup>xxiii</sup> The problem is that with the regulator’s finger on the scale, private firms can deliver most services. The standard as written would rule out virtually any postal innovation. Judging whether a proposed service could be offered by the private sector is a standard that must be connected with a clearer view of what will serve the public mission of the posts.

<sup>xxiv</sup> PAEA, Section 1004.

<sup>xxv</sup> There are as many reasons that are commonly given for the Posts not being able to “go it alone” as there are critics and competitors. The traditional arguments are that the posts lack competence or the agility to survive in the Internet market. (Pointing to the “experience” of the late nineties bolsters this argument.) Some argue that the Internet should be “out of bounds” because postal services are defined in the 2006 law as being limited to the movement of physical mail (or services “ancillary thereto”. (Section 101 of PAEA.) Taken together, these two arguments make the case that the Posts will need an edge in a highly competitive market and they will use their monopoly powers inappropriately. Add to these arguments the sheer practicality of needing allies in a competitive marketplace where many others have already gained position.